

# Evaluation of the Effect of Tax Reduction and Exemption Policies During the Epidemic

Yanping Shi

School of International Business, Yunnan University of Finance and Economics, Kunming Yunnan, 650221, China

## ABSTRACT

Since the outbreak of COVID-19, in order to fully recover the economy, support the orderly development of local economy, and coordinate the local industrial structure with the whole social economy, China has issued a number of tax reduction and exemption policies in line with the epidemic, and various localities have thoroughly implemented the tax reduction and exemption policies under the call of the state. Practice has shown that these tax reduction and exemption policies have effectively promoted economic recovery, improved the happiness index of taxpayers, and made important contributions to the fight against the epidemic. However, it is undeniable that during the period of fighting against the epidemic, China's tax reduction and exemption policies still need to be further improved. Therefore, this paper will analyze the effects of tax reduction and exemption policies during the epidemic from four aspects. First of all, this paper introduces the nature of the impact of major public emergencies on the economy and the mechanism of economic action of tax policies, and accurately grasped the tax reduction and exemption at the theoretical level, laying a theoretical foundation for the subsequent evaluation of tax reduction and exemption policies. Secondly, this paper will carry out the interpretation and analysis of the reduction and exemption policies of corporate income tax, personal income tax, value-added tax and consumption tax during the epidemic. Thirdly, we collected data to comprehensively evaluate the effect of tax cuts and exemptions during the epidemic. Finally, we should not only see the positive side of tax reduction policy, but also correctly face its shortcomings and give the author's suggestions.

## KEYWORDS

Resumption of work and production; Tax reduction and exemption policies; Effect of policy

## 1. INTRODUCTION

### 1.1. Research Background

In 2020, the COVID-19 epidemic swept the whole of China, and the national focus was focused on the fight against the epidemic. The domestic economy stalled, enterprises stopped work and production, the unemployment rate rose, and especially the short-term decline in consumer demand, which had a significant impact on many service industries such as catering, tourism and entertainment. Market players severely affected by the epidemic are facing great pressure to survive, especially small and medium-sized manufacturing and service enterprises. The long duration of the epidemic, the increase of costs and the reduction of consumption during the epidemic forced many small and medium-sized enterprises to close down, and the overall domestic economy was under great downward pressure. Tax reduction and exemption policy can effectively reduce the economic pressure of enterprises, promote consumption, and restore economic operation.

## **1.2. Research Significance**

Tax reduction and exemption is related to the economic interests of the country, enterprises and individuals, and plays an important role in the development of the national economy. In general, during the epidemic, the state made "concessions" to enterprises and individuals in terms of economic interests. In this special period, the positive tax reduction and exemption policies have the effect of getting twice the result with half the effort, while the negative tax reduction and exemption policies have the effect of double suppression. It is a research of great practical significance to absorb the policy advantages of COVID-19 and reflect on and optimize the policy shortcomings.

## **2. THE THEORETICAL BASIS OF TAX REDUCTION AND EXEMPTION FOR PUBLIC EMERGENCIES**

### **2.1. The Nature of Shocks to the Economy Caused by Major Public Emergencies**

To deal with public emergencies, the government needs to formulate public policies, and the formulation of public policies by the government needs certain economic theoretical basis as support and guidance. First of all, in the short term, major public events cause panic to the society, affect the normal level of social production and consumption, hinder social production activities, slow down the pace of social consumption, and bring different impacts to social subjects. Secondly, in the long run, public emergencies will affect or even change the decisions of enterprises and the long-term preferences of consumers. Third, from the macro level, major surprise events not only have a certain negative impact on the national key industries (such as tourism and catering industry), but also lead to the suspension of international and domestic circulation. Finally, at the micro level, aggregate supply and demand both decline. In terms of consumption, the lack of income of each subject has caused the decline of consumption level.

### **2.2. The Mechanism of Tax Policy on the Economy**

When the economy is hit by a shock, aggregate supply does not reach a certain balance with aggregate demand. From the demand side, consumer mobility decreased and some demand was interrupted; from the supply side, the impact of the epidemic is to interrupt part of the supply, and even part of the supply structure is unbalanced. Therefore, the government will first introduce policies to adjust the balance between aggregate supply and aggregate demand to stabilize the economy. Tax is an important economic adjustment tool because it has the unique advantage of "automatic stabilizer" and discretionary policy mechanism. The tax will automatically change according to different economic fluctuations, which is an automatic response ability of the tax system to the economy. When the economy grows, corporate profits rise, personal income increases, and the corresponding tax rate rises to prevent inflation. When the economy declines, corporate profits decrease, personal income decreases, and the corresponding tax rate decreases, effectively reducing the economic pressure on enterprises and individuals. The discretionary mechanism is to eliminate economic fluctuations that cannot be eliminated by automatic tax stabilizers. It is the corresponding adjustment made by the government to economic changes. When economic inflation occurs, the government adopts contractionary tax policies to reduce the income of enterprises and individuals. When deflation occurs in the economy, the government adopts expansionary tax policy to reduce government tax revenue and give concessions to firms and individuals.

### **2.3. The Role of Tax Reduction and Exemption Policies in the Epidemic is Basic**

First of all, the tax reduction and exemption policy is the expansionary tax policy of the government. Through the introduction of tax preferential policies by the government, the government's tax revenue is reduced, the production cost of enterprises is reduced, and the after-tax income of individuals is

increased to jointly restore the economy during the epidemic. Tax reduction and exemption policy aims at tax exemption and tax reduction, enterprises and individuals are taxpayers, cannot do without the payment of tax, tax reduction and exemption policy can reduce the cost of enterprises, increase the working capital of enterprises. According to the current corporate income tax rate of 25%, tax accounts for a quarter of the weight in the annual accounting of enterprises. Tax reduction and exemption policies during the epidemic can reduce the weight of tax and transfer it to the interests of enterprises, helping enterprises to resume work. With the help of tax cuts and exemptions during the epidemic, individuals can increase their disposable income, increase their enthusiasm for work, promote personal consumption and drive economic growth. Secondly, tax reduction and exemption policies optimize tax collection and administration, improve the efficiency of the government, and upgrade the tax service. During the epidemic period, smart tax payment services based on big data and green tax payment services characterized by non-contact have emerged in China. Tax authorities actively apply data and digital systems to carry out intelligent tax payment services remotely and contactless. Tax big data accurately breaks through the blockage points of the supply chain and achieves a dynamic balance between service efficiency and response effect.

### **3. TAX REDUCTION AND EXEMPTION POLICIES DURING THE EPIDEMIC**

#### **3.1. Corporate Income Tax Reduction and Exemption Policies**

In the national battle against the epidemic, the State Administration of Taxation has issued a series of preferential tax policies for epidemic prevention and control, focusing on supporting protection and treatment, supporting the supply of anti-epidemic materials, encouraging donations of anti-epidemic materials, and supporting enterprises to resume work and production.

For enterprises producing epidemic prevention and control support materials that purchase equipment for the purpose of expanding production, they will be given a one-time pre-tax deduction of corporate income tax as costs. This policy can be implemented regardless of whether the unit value is less than 5 million yuan or more than 5 million yuan. In this way, it can not only reduce the cost of production enterprises, increase the production cash flow of enterprises, but also accelerate production to meet the supply and demand of the protest front line. More importantly, many enterprises affected by the epidemic quickly transformed into the production of epidemic prevention and control supplies, further driving economic recovery. During the epidemic period, consumption decreased, and the four industries most affected by the economy: transportation, catering, accommodation and tourism were affected to varying degrees respectively. Therefore, the state announced that enterprises in the difficult industries greatly affected by the epidemic suffered losses in 2020, and the maximum carryover period was extended from five years to eight years. The policy will further reduce the investment cost of enterprises and mobilize their enthusiasm to resume work and production. As for the tax policy on enterprise donation, after January 1, 2020, the cash and goods donated by enterprises to deal with the pneumonia epidemic caused by the novel coronavirus through public welfare social organizations or people's governments at or above the county level and their departments and other state organs are allowed to be fully deducted in the calculation of taxable income. Compared with the previous proportion of deduction, this policy will be greatly relaxed, reflecting the response to epidemic prevention and control. The part of the annual taxable income of small low-profit enterprises not exceeding 1 million yuan shall be reduced by 12.5% into the taxable income, and the enterprise income tax shall be paid at the tax rate of 20%.

#### **3.2. Individual Income Tax Reduction and Exemption Policies**

During the epidemic prevention and control period, the state not only gave tax incentives to corporate income tax, but also clearly stipulated the reduction and exemption of individual income tax. The

State Administration of Taxation gave different incentives to epidemic prevention and control personnel, epidemic prevention and control goods, epidemic prevention and control hospitals, and individual donations.

During the prescribed epidemic prevention and control period, temporary work subsidies and bonuses obtained by staff and medical staff participating in epidemic prevention and control will be exempted from individual income tax. Medical supplies sent by units to individuals to prevent COVID-19 are not included in wages and salaries and are exempted from individual income tax. Donations made directly by individuals or to the Red Cross through non-profit social organizations and state organs shall be fully deducted when calculating individual income tax, which is conducive to supporting the fight against the epidemic. On the part of the annual taxable income of individual industrial and commercial businesses that does not exceed RMB 1 million yuan, the individual income tax shall be halved on the existing preferential policies.

### 3.3. Value Added Tax and Consumption Tax Reduction or Exemption Policy

While fighting the epidemic in an all-round way, the state is also actively supporting the resumption of work and production in various industries. The author has summarized the VAT and consumption tax reduction and exemption policies introduced in 2020

**Table 1.** Summary of VAT reduction and exemption policies

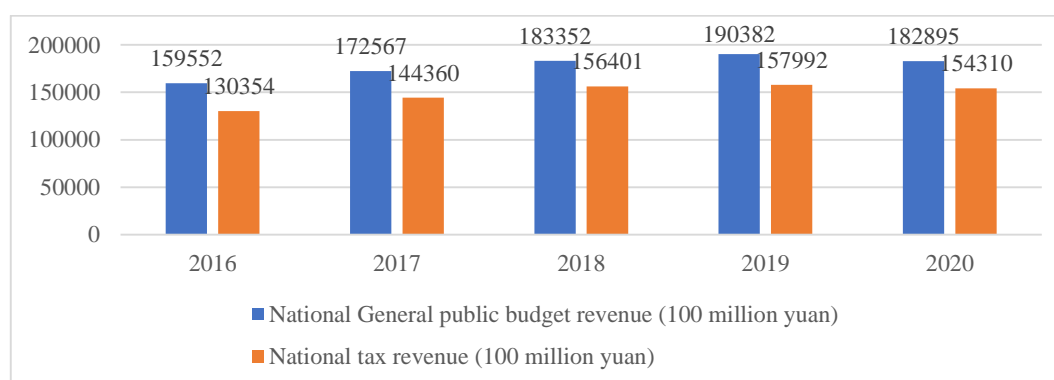
	Support the supply of anti-epidemic supplies		
Subject of enjoyment	Enterprises that produce epidemic prevention and control materials.	Provide transportation taxpayers for epidemic prevention and control support materials.	Individual businesses and units that donated goods free of charge to fight the epidemic.
Preferential content.	From 1 January 2020, enterprises can apply to the competent tax authorities on a monthly basis for the full refund of the newly increased final retained tax credit as compared with the end of 2019.	From January 1, 2020, taxpayers' income from transportation will be exempted from VAT.	Starting from January 1, 2020, units or individual businesses will be exempted from value-added tax or consumption tax if they directly or indirectly donate goods produced, processed or purchased by themselves to units that are used to fight the epidemic.

**Table 2.** Summary of VAT reduction and exemption policies

	Support the resumption of work in the service industry		Support for small-scale taxpayers rehabilitation
Subject of enjoyment	Taxpayers who provide public transportation services, daily life services and express delivery services for residents' daily necessities.	Provide film screening services taxpayers.	Small-scale taxpayers of taxable sales income subject to the 3% levy rate.
Contents of the offer	From January 1, 2020, qualified taxpayers will be exempted from VAT on their income.	From January 1, 2020 to December 31, 2020, taxpayers are exempted from VAT on income obtained.	From March 1, 2020 to December 31, 2020, VAT will be levied at a reduced rate of 1% and paid in advance at a reduced rate of 1%.

## 4. EVALUATION OF THE EFFECT OF TAX REDUCTION AND EXEMPTION POLICIES DURING THE EPIDEMIC

### 4.1. Review and Analysis of National Public Budget Revenue

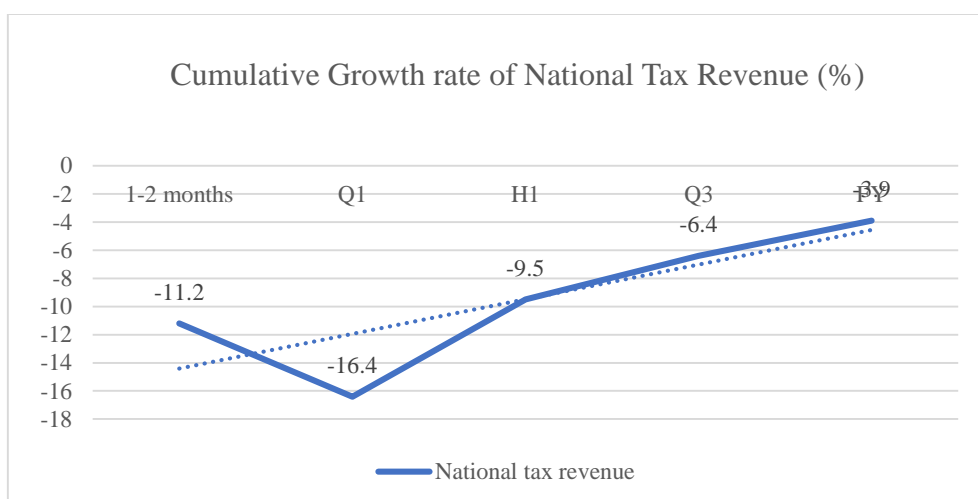


**Figure1.** Statistics of national public budget revenue and tax revenue from 2016 to 2020

(Data source: National Bureau of Statistics)

It can be seen from Figure 1 that from 2016 to 2019, the national general public budget revenue and the national tax revenue have been increasing. However, in 2020, the national general public budget revenue decreased by 3.9% year-on-year, among which the tax revenue decreased by 2.3% year-on-year. Expenditure in China's general public budget for 2020 will reach 24.5588 trillion yuan, an increase of 2.8% over the previous year. In 2020, the new tax cuts nationwide decreased by more than 2.5 trillion yuan, accounting for 16% of the national tax revenue. The data can be reflected that the coverage of tax cuts and exemptions in 2020 is wide, and the expected effect is obvious. Taxation involves the interests of the country and taxpayers, but the economic interests of the two cannot grow synchronously. At the moment of crisis, China formulated a series of preferential tax policies based on contemporary national conditions to solve the economic pressure faced by individuals and enterprises during the epidemic, and adopted more relaxed tax policies to tide over the epidemic together.

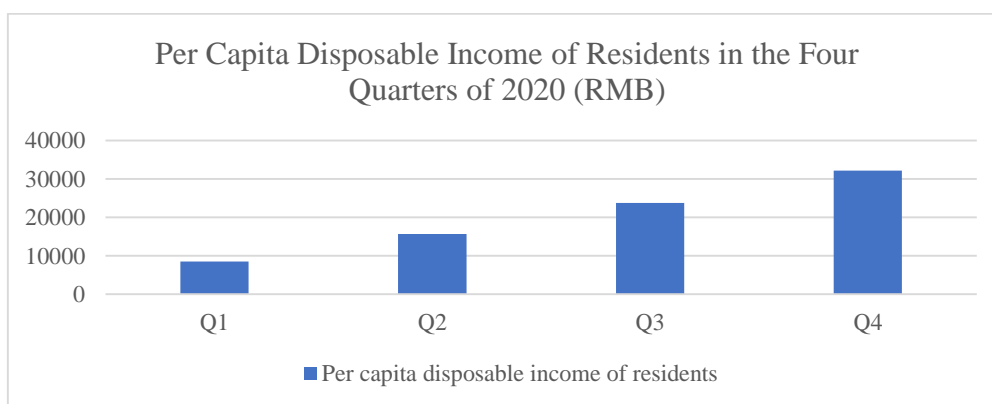
## 4.2. Assessment and Analysis of National Tax Revenue



**Figure 2.** Cumulative growth of national tax revenue

(Data source: National Bureau of Statistics)

It can be seen from Figure 2 that the overall national tax revenue showed a trend of gradual recovery after a sharp decline in the first quarter and continued to rise in the third and fourth quarters. In 2020, the national tax revenue was 15.43 trillion yuan, down 2.3% year on year, but the decline was 4.1 percentage points higher than that in the third quarter and 14.1 percentage points higher than that in the first quarter. Obviously, with the help of preferential tax policies, the economy gradually resumed steady growth, and the concessions of the state got the final feedback and return.



**Figure 3.** Per capita disposable income of residents in the four quarters of 2020

(Data source: National Bureau of Statistics)

## 4.3. Evaluation and Analysis of Per Capita Disposable Income of Residents

The tax reduction and exemption policy not only directly gives preferential treatment to enterprises, but also indirectly gives preferential treatment to residents. The disposable income of residents can also reflect the effect of the implementation of tax reduction and exemption policy. The per capita disposable income of residents is composed of wage income, net operating income, net property income and net transfer income. Once the profits and operating results are good, employees will be given benefits and higher salary treatment, so the salary income of residents will increase. In addition, residents engaged in production and business operation are favored by tax reduction and exemption policies, thus reducing operating expenses and increasing net income. It can be seen from Figure 3 that the per capita disposable income of residents in 2020 shows a linear growth quarter by quarter, which proves that the tax reduction and exemption policy has an obvious effect, not only promoting

the resumption of work and production, but also increasing residents' income and improving residents' happiness index.

#### **4.4. Evaluation and Analysis of the Implementation Effect of Tax Reduction and Exemption Policies**

According to the statistics of the State Administration of Taxation [15], in the first quarter of 2021, about 2.792 million new tax-related subjects were handled nationwide, up 86% year on year and 34.9% over the same period in 2019. The data show that the implementation of tax reduction and exemption policy is better and the effect is obvious. VAT invoice data show that in the first quarter, the sales revenue of China's manufacturing industry increased by 49.7% year on year, the sales revenue of China's high-tech industry increased by 53% year on year, the sales revenue of civil engineering construction industry increased by 44.8% year on year, and the sales revenue of agricultural machinery products increased by 78.7% year on year. This shows that with the effective implementation of tax reduction and exemption policies, the resumption rate of work and production of all walks of life in China has improved significantly, and enterprise income has increased steadily; at the same time, the tax reduction and exemption policy effectively promoted consumption, expanded domestic demand, and thus enhanced consumer confidence. In the first quarter, the sales revenue of the national retail industry increased by 52.9% year on year, among which, the sales revenue of jewelry and watches increased by 75.4% and 88.6% year on year respectively, and the demand of consumers gradually picked up.

Based on the above data, from the evaluation and analysis of the scope of benefit, implementation intensity and implementation effect of the policy, the implementation of tax reduction and exemption is living up to expectations. From the small residents to the large country, their income shows an upward trend, so the overall economic trend is also rising, and the policy of tax reduction and exemption is indispensable.

### **5. SUGGESTIONS ON OPTIMIZING TAX REDUCTION AND EXEMPTION POLICIES DURING THE EPIDEMIC**

#### **5.1. To Establish Perfect the Tax Policy Emergency System**

The state and local governments should establish an emergency system of tax reduction and exemption policy to deal with sudden events or disasters, and make preparations for a rainy day. According to the experience of previous events and scholars' research, combined with our national conditions and the situation of various places, we should establish an emergency policy of tax reduction and exemption belonging to our country. During this period, local governments established their own local emergency response system according to local conditions, and responded to the national macro emergency response system. They made good use of network big data and intelligent technology to monitor statistical data at all times and make adjustments and optimization at any time.

#### **5.2. Publicity of Tax Reduction and Exemption Policies Should Be Intensified**

The State Council attaches great importance to the preferential tax policies for the epidemic. In the process of formulating policies, according to the actual situation of each local area, the State Administration of Taxation jointly proposes policies. The introduction of policies should make more people have a deep understanding of them, otherwise they will be like a dummy and cannot play the effect of preferential tax policies. So that taxpayers can truly experience the benefits of the policy. At the same time, establish a feedback mechanism, establish a tax platform, actively accept taxpayers' feedback and make adjustments. In particular, it is necessary to vigorously publicize the catering

industry, which is seriously affected by the epidemic, so that enterprises can effectively enjoy the preferential tax policies.

### **5.3. Focusing on Implementing Local Tax Reduction and Exemption Policies**

Local governments should fully implement the tax reduction and exemption policies issued by the State Administration of Taxation. Currently, local governments only focus on income and ignore tax expenditure, which has caused serious tax burden to local enterprises. Instead of supporting the resumption of work and production, local enterprises are discouraged, which is a vicious circle. Compressing the discretion of local governments is necessary to implement the tax reduction and exemption policy.

### **5.4. Appropriately Relaxing the Scope of Subjects Enjoying Tax Reduction or Exemption Policies**

It can be seen from the tax reduction and exemption policies issued by the state and local governments that the subjects enjoying tax reduction and exemption are concentrated in the medical staff and epidemic prevention staff. For example, in the preferential individual income tax policy, the temporary work subsidies and bonuses obtained by the staff and medical staff participating in epidemic prevention and control are exempted from individual income tax. The subject of tax reduction and exemption policy can be appropriately expanded, and the employees of enterprises transporting epidemic prevention materials and producing epidemic prevention materials can be included in the scope of preferential treatment, as well as the staff of charitable organizations and security and order maintenance personnel who provide rear support, so as to fully ensure the income level of front-line and rear personnel and encourage the staff to actively participate in the cause of epidemic prevention.

## **6. SUMMARY**

In the context of the global fight against the epidemic, economic recovery has become the primary task after the fight against the epidemic, and tax cuts and exemptions play an important role in adjusting the economic structure, so the formulation and implementation of tax cuts and exemptions need to be strictly controlled. The formulation and implementation of the policy should not only ensure the moderate tax revenue of the state, but also transfer the economic benefits to taxpayers. From the survey data of 2020, we can see that the tax cuts and exemptions during the epidemic have played a significant role in balancing the national income, the income of enterprises and individuals, and more importantly, boosting the "stranded" economy during the epidemic. But to better prepare for the next shock, both the state and the taxpayer should learn from this experience and devise more thoughtful tax cuts that benefit more people, shorten the recovery time, and create greater welfare.

## **REFERENCES**

- [1] ZHAO Jun, Investigation and Research on tax reduction and exemption in Beijing [D], Lanzhou Jiaotong University, 2015.
- [2] State Administration of Taxation, "Implementation Plan for Tax Reduction and Exemption Statistical Investigation in 2012", 2012.
- [3] Fan Qiguo, Review of preferential policies for epidemic prevention and control affecting personal income tax settlement [J], Tax Collection, 2021(03):46-48.
- [4] Zhang J, Qiu J P, Analysis of tax policies to support the prevention and control of COVID-19 [J], Western Finance and Accounting, 2020(10):28-30.]
- [5] Research Group of China Enterprise News Group, Research Report on the development environment of Chinese Enterprises under the Epidemic [N], China Enterprise News, 2021-03-02(006).

- [6] Yu Yuan-pu, Thinking on the countermeasures of China's financial resources construction under the impact of Epidemic [J], *Local Finance Research*, 2021(02):59-65+105.
- [7] Chen Pinghua, Ge Ge, Preferential tax policies to relieve the financial difficulties of Chinese small and medium-sized enterprises under the impact of COVID-19 [J], *Journal of Hubei University of Economics*, 2019,18(04):30-35.
- [8] Luan Chunhua, New characteristics of tax service under the normalization of epidemic prevention and control [J], *Journal of Hunan Tax College*, 2021, 34(01):31-33.
- [9] Liu Di, Research on Implementation of Preferential Tax Policies for Small and Micro Enterprises in Qujing City [D], *Yunnan University of Finance and Economics*, 2020.
- [10] Guangdong: Tax reduction and fee reduction stimulate multiple development effects [J], *Shandong Economic Strategy Research*, 2020(11):3.
- [11] Yang Yuxun, Xiu Bing, Su Minli: Discussion on the Policy of tax reduction and exemption after the peace negotiation in Shaoxing [J], *International Journal of Social Sciences (Chinese Edition)*, 2019, 37(03):97-111+6+11.
- [12] Sun Xiaoya, Grey Correlation analysis of the impact of fiscal subsidies and tax incentives on equipment manufacturing innovation: A case study of Liaoning Province [J], *Science and Technology Entrepreneurship Monthly*, 2019, 33(08):67-70.
- [13] Chen Wan, Tax and fee reduction will be implemented to send "real money and silver" to enterprises [J], *Environmental Economics*, 2020(11):35-39.
- [14] Tian Jing, Research on Implementation of preferential tax policies for small and micro Enterprises in N County and Countermeasures [D], *China University of Geosciences (Beijing)*, 2020.
- [15] State Administration of Taxation, Tax big data, take you through the economic situation in the first quarter. <http://www.chinatax.gov.cn/chinatax/n810219/n810780/c5163726/content.html>